

<b>DISPATCH</b>		<b>SECRET</b>		ECNA-17470	
TO: Chief, EE		COS		308-6-41	
FROM: Chief of Base, Bonn		DATE: 24 July 1947		SUBJECT: "As-Is" - "As-Is" - "As-Is"	
SUBJECT: Operational/CALL Transmittal of Memoranda of Conversation Between Governor W. Averell Harriman and Ministers Etzel and Erhard		CLASSIFIED FOR DISSEM:		XX NO DISSEM REQUIRED	
ACTION REQUIRED:		REASON FOR DISSEM:		BY DISSEM OR DISSEM ONLY	

1. Forwarded herewith are copies of memoranda of conversation between Governor W. Averell Harriman and Ministers Etzel and Erhard which were held early in July during the visit of Governor Harriman to Bonn. These memoranda were made available to us by the Embassy Economic Counselor, Mr. Henry Tasca, who, although his name does not appear on the memoranda, was present at these conversations and drafted the memoranda. Mr. Tasca thought that KUBARK, perhaps ASCHAM, might be interested in these reports, particularly as they reveal a considerable degree of political naivete on the part of Minister Erhard. We refer to those passages in the memorandum of conversation with Minister Erhard wherein he implies that expanding consumer demands might force the Soviet rulers to reduce investments and resources expended for military purposes and also where Minister Erhard suggests that the Soviets might be prepared to make political concessions at a summit conference in exchange for increased trade with the West.

2. Prompted in advance by Mr. Tasca who anticipated these views, Governor Harriman did his best to dissuade Minister Erhard from thinking along these lines. Judging from Minister Erhard's subsequent public statements, Governor Harriman's efforts appear to have been partially successful, at least for the time being.

3. It may be of interest to Headquarters to know that [ ] and the undersigned had a private chat with Governor Harriman during the Ambassador's Independence Day party. The discussion centered on Governor Harriman's trip to the Soviet Union and his views on the Berlin and German problems. He stated that he would report all his observations to ASCHAM personally when he returned to America.

[ ]

Attachments: R/W  
As noted above

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AMERICAN EMBASSY, Box 800,  
Bonn, Germany,  
July 8, 1959.

OFFICIAL - INFORMAL

Dear Bill:

There are attached herewith copies of memoranda of conversation between W. Averell Harriman and Ministers Erhard and Eitel. These summaries are unofficial summaries which have been prepared here for our files. Since they are unofficial and their distribution has not been authorized, I am sure you will take good care to see they are properly handled and circulation is appropriately limited.

I trust you have seen [ ] and he has conveyed to you my various messages. Dr. Markert of the Foreign Office has just asked me again about the possibility of having an American-German economic meeting. My considered proposal to you is that we try such a meeting, setting one up for November in Washington. I gather at such time Dr. Markert will be available to go to Washington with such staff members as he deems appropriate. The meeting need not be official in nature and need have no publicity. The agenda could be prepared prior to the meeting with both sides making contributions.

I am sorry you could not join our Economic Officers meeting. The only reason we didn't send a cable to Washington as we did to Paris was to avoid any possibility

William M. Bray, Esquire,  
Officer in Charge, German Economic Affairs,  
Office of German Affairs,  
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of embarrassment in the event such a trip was not personally convenient to you.

We appreciate your letters and enclosures and hope you will continue to send them.

With best wishes to Lucille.

Cordially,

Henry J. Tassa  
Minister for Economic Affairs

Enclosures:

Memoranda.

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MEMORANDUM OF CONVERSATION

July 3, 1959

PLACE : Bonn, Germany

PARTICIPANTS: Mr. W. Averell Harriman  
Federal Republic Economics Minister Ludwig Erhard

After the exchange of usual pleasantries Minister Erhard asked Mr. Harriman what his view was of the Soviet Seven Year Plan. Erhard considered this important because of its relation to the standard of living and the Soviet foreign policy. Erhard considered that expanding consumer needs might ultimately make necessary the reduction of resources available for military purposes. Harriman replied stating that in general the program would probably be realized but it was important to remember that under the Seven Year Plan the emphasis on heavy industry and the military buildup would continue. There were no major concessions in his view to Soviet consumers in the Plan except for housing, but even new housing in the Soviet Union would clearly be very poor quality. Harriman stated he had asked the Soviets why they did not mechanize Soviet kitchens noting how primitive were the kitchens in the best of the modern dwellings presently being built. The Soviets did not intend to give the consumers automobiles noting that the Seven Year Plan allowed for only 700,000 units per year. On the other hand, Harriman thought that some progress was being made on the agricultural side. There would be more meat and butter available for Soviet consumers.

Harriman estimated the Soviet GNP was 40-45% of that of the United States. However, military expenditures in both countries were roughly about the same in absolute magnitude. He stated that if one included expenditures for military and investment, the breakdown would be 2/3 for investment and defense and 1/3 for consumption -- the reverse of the situation in the United States. Harriman stressed to Erhard, however, that the Soviet consumers were relatively satisfied with their position and one should not count on the possibility of consumer dissatisfaction expressing itself in any significant way and affecting the Soviet foreign position.

However, Harriman noted that after the terrorism of the Stalin period, which had actually threatened the lives of present Soviet leaders, there had been a marked movement away from terrorist methods in the direction of freedom. He thought the appetite of the Soviet

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citizen for freedom would grow and would be the most difficult problem for the Soviet leadership. He stated, in his view, communism could not live without terror and this would be the great internal problem of Soviet leadership. However, it is a problem which would develop into tangible proportions only over a period of decades, e.g., 10-20 years or more.

Harrison stated a summit meeting should be welcomed and used primarily as a means of providing badly-needed education to Khrushchev. He thought in this connection it would be quite useful for Khrushchev to visit the Federal Republic and the United States. The theme of a summit meeting should be disarmament and it was important to get away from the Berlin question. Harrison was certain that Khrushchev was poorly informed on the West. Neither Mikoyan or Gromyko, for example, had informed him on the true state of Western opinion. In Harrison's view, they were afraid to tell him the truth.

Khrushchev was not a Hitler. He had to consult with his colleagues but so did Stalin. Harrison described Khrushchev as arrogant, emotional, fanatical and highly dangerous. He found Khrushchev emotional and capable of monstrous miscalculation as compared with the cool and calculated actions of Stalin. Khrushchev was a fanatically-devoted communist who believes in the ultimate victory of world communism and intended to help it along to victory. Harrison felt that people in the Soviet Union were satisfied with their lot. Above all, the Soviet Government had succeeded in persuading the people at all levels to talk about peace and believe in the peaceful intentions of the Soviet authorities. Everywhere he visited he was told the Soviet people were for peace and queried as to why the ruling classes in America opposed the reasonable proposals of the Soviet Union for peace.

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Harrison expressed the view that the Free World greatly underestimated the threat of the Soviet Union. He spent many hours with Khrushchev during his recent visit, served as Ambassador to Russia during the war, and had visited the Soviet Union in 1924. He was convinced the present threat was dangerous. Harrison stated he regretted to give such a pessimistic picture. He had gone to the Soviet Union to find conditions unfavorable. Unfortunately, this is not the case.

Harrison emphasized at this point that the West should do everything possible to prevent the Soviet Union fulfilling the Seven Year Plan. Trade should be strictly controlled so as to assure that no contribution was made to a realization of the Seven Year Plan.

He also added this point that he was against any thinning out proposal in Central Europe. It made no military sense in the period of missiles to develop thinned out military zones.

Harriman then mentioned the problem of aid to underdeveloped areas and expressed the hope the Federal Republic would be forthcoming in this field. Erhard stressed, in reply, the view that coordination of aid to underdeveloped areas was necessary and the World Bank could serve effectively toward this end. He stated he would propose at the time of the next Fund and Bank meeting next fall that a clearing house be set up within the World Bank to provide information on aid to underdeveloped areas and in this way avoid a competitive effort. Harriman referred to the steel mill being constructed in India by a firm of the Federal Republic, and stressed the importance of the Germans carrying on after the completion of the mill to insure its successful operation. The Soviets were planning to do exactly this with the mill they were currently building.

At this point, Erhard questioned Harriman as to what he thought of the possibility of trading off trade facilities against political concessions at a summit conference. In other words, would the Soviet Union be prepared to make political concessions if trade advantages were the counterpart? Harriman repeated his view that trade should be kept to a minimum and every effort made to avoid helping the Soviet economy. In his view, a summit conference should definitely concentrate on disarmament.

Harriman asked what progress has been made in developing further the European Economic Community. Erhard replied he was doubtful of foreseeable progress on the political side in view of the political developments in France over the last year. In his view, the development of the Seven was a big mistake and a bridge must be built between the Six and Eleven. He stated he was neither anti-French or an Anglophile but believed technological advances made the world smaller and it must not be broken up and divided. Harriman replied one could have both, e.g., technological advantages and European economic integration.

Erhard stated Germany favored the Common Market. Erhard returned to the subject of the World Bank and stated the World Bank was most useful for coordinating aid to underdeveloped areas because of its "apolitical" nature with no political conditions attached. Harriman thought soft currency loans would be necessary and Erhard mentioned the IDA, a new agency being set up for this purpose. Harriman also thought the Russians should be invited in, on the basis that although they would refuse, the refusal itself would put the West in a favorable propaganda position.

Erhard asked Harriman his views about the relationship of China and the Soviet Union. Harriman replied that no major problems between the Soviets and the Chinese could be expected in

this generation. The Soviet Union needed China to win world communism. Khrushchev is convinced they are winning this victory and feels they must work together with China for this purpose. This did not exclude the fact that the Soviet Union would be quite happy if the West were able, to the maximum extent possible, to contribute to Chinese economic development, thus reducing the burden on the Soviet Union.

Harrison concluded by stating it was unlikely the Soviet Union wished some disarmament because of the high cost of new weapons and the pressure on resources on which military defense depended.

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